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UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA  
OAKLAND DIVISION

BZ

SAMMY K. DOOLITTLE, Derivatively on  
Behalf of SONIC SOLUTIONS,

Plaintiff,

vs.

ROBERT J. DORIS, DAVID C. HABIGER,  
MARY C. SAUER, A. CLAY LEIGHTON,  
MARK ELY, ROBERT M. GREBER, PETER  
J. MARGUGLIO and R. WARREN  
LANGLEY,

Defendants,

– and –

SONIC SOLUTIONS, a California  
corporation,

Nominal Defendant.

VERIFIED SHAREHOLDER DERIVATIVE  
COMPLAINT FOR VIOLATION OF THE  
FEDERAL SECURITIES LAWS AND  
STATE LAW CLAIMS FOR BREACH OF  
FIDUCIARY DUTY, ABUSE OF  
CONTROL, CONSTRUCTIVE FRAUD,  
CORPORATE WASTE, UNJUST  
ENRICHMENT, GROSS  
MISMANAGEMENT AND ACTION FOR  
ACCOUNTING

DEMAND FOR JURY TRIAL

## NATURE OF THE ACTION

1  
2           1.       This is a shareholder derivative action brought by a shareholder of Sonic Solutions  
3 (“Sonic” or the “Company”) on behalf of the Company against its entire Board of Directors and  
4 certain current officers and former top officers and/or directors (collectively, “Defendants”). This  
5 action seeks to remedy Defendants’ violations of federal and state law, including breaches of  
6 fiduciary duty, abuse of control, constructive fraud, corporate waste, unjust enrichment and gross  
7 mismanagement, arising out of a scheme and wrongful course of business whereby Defendants  
8 allowed senior Sonic insiders to divert hundreds of millions of dollars of corporate assets to  
9 themselves via the manipulation of grant dates associated with hundreds of thousands of stock  
10 options granted to Sonic insiders. Each of the Defendants also participated in the concealment of the  
11 backdating option scheme complained of herein and/or refused to take advantage of the Company’s  
12 legal rights to require these senior insiders to disgorge the hundreds of millions in illicitly obtained  
13 incentive compensation and proceeds diverted to them since 2001.

14           2.       Between 2001 and 2006, Defendants also caused Sonic to file false and misleading  
15 statements with the Securities and Exchange Commission (“SEC”), including Proxy Statements filed  
16 with the SEC which stated that the options granted by Sonic carried with them an exercise price that  
17 was not less than the fair market value of Sonic stock on the date of grant and issuance.

18           3.       In fact, Defendants were aware that the practices employed by the Board allowed the  
19 stock option grants to be backdated to dates when the Company’s shares were trading at or near the  
20 lowest price for that relevant period. By the beginning of February 2007, Defendants’ backdating  
21 scheme had yielded stock option grants to the Company’s executive officers worth millions of  
22 dollars, contributing to their ability to sell \$43 million worth of their Sonic stock.

23           4.       Sonic’s financial results as reported and filed with the SEC were false. Defendants’  
24 misrepresentations and wrongful course of conduct violated the Securities Exchange Act of 1934  
25 (the “Exchange Act”), as well as California law. By authorizing and/or acquiescing in the stock  
26 option backdating scheme, Defendants: (i) caused Sonic to issue false statements; (ii) diverted  
27 hundreds of millions of dollars of corporate assets to senior Sonic executives; and (iii) subjected  
28 Sonic to potential liability from regulators, including the SEC and the IRS.

1           5. Defendants' gross mismanagement and malfeasance over the past decade has exposed  
2 Sonic and its senior executives to criminal and civil liability for issuing false and misleading  
3 financial statements. Specifically, Defendants caused or allowed Sonic to issue statements that  
4 failed to disclose or misstated the following: (i) that the Company had problems with its internal  
5 controls that prevented it from issuing accurate financial reports and projections; (ii) that because of  
6 improperly recorded stock-based compensation expenses, the Company's financial results violated  
7 Generally Accepted Accounting Principles ("GAAP"); and (iii) that the Company's public  
8 disclosures presented an inflated view of Sonic's earnings and earnings per share.

9           6. Defendants' malfeasance and mismanagement during the relevant period has wreaked  
10 hundreds of millions of dollars of damages on Sonic. The Company's senior executives were  
11 incentivized to over-pay themselves, to profit from their misconduct by cashing in on under-priced  
12 stock options and to issue false financial statements to cover up their misdeeds. Defendants'  
13 breaches of fiduciary duties in the administration of the Company's stock option plans so polluted  
14 the plans with grant date manipulations as to void all grants made pursuant to the plans. This action  
15 seeks recovery for Sonic against these faithless fiduciaries, as Sonic's Board of Directors, as  
16 currently composed, is simply unable or unwilling to do so.

#### 17                                   **INTRADISTRICT ASSIGNMENT**

18           7. A substantial part of the events or omissions which give rise to the claims in this  
19 action occurred in the county of Marin and as such this action is properly assigned to the San  
20 Francisco or Oakland division of this Court.

#### 21                                   **JURISDICTION AND VENUE**

22           8. The claims asserted herein arise under §14(a) of the Exchange Act, 15 U.S.C.  
23 §78n(a), and under California law for breach of fiduciary duty, abuse of control, constructive fraud,  
24 corporate waste, unjust enrichment and gross mismanagement. In connection with the acts, conduct  
25 and other wrongs complained of herein, Defendants, directly or indirectly, used the means and  
26 instrumentalities of interstate commerce, the United States mail and the facilities of a national  
27 securities market.  
28

9. This Court has subject matter jurisdiction pursuant to §27 of the Exchange Act, 15 U.S.C. §78aa, as well as 28 U.S.C. §1331. This Court also has supplemental jurisdiction over the state law claims asserted herein pursuant to 28 U.S.C. §1367.

10. This action is not a collusive one to confer jurisdiction on a court of the United States which it would not otherwise have.

11. Venue is proper in this district pursuant to §27 of the Exchange Act, 15 U.S.C. §78aa, as well as 28 U.S.C. §1391(b). Many of the acts charged herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in this District. Sonic is located in and conducts its business in this District. Further, Defendants conduct business in this District, and certain of the Defendants are citizens of California and reside in this District.

## PARTIES

12. Plaintiff Sammy K. Doolittle is a shareholder of Sonic and holds and has continually held 500 shares of Sonic stock since November 4, 1998.

13. Nominal party Sonic is a California corporation with its principal executive offices located at 101 Rowland Way, Suite 110, Novato, California. Sonic develops and markets computer software related to digital media, such as data, photographs, audio and video in digital formats.

14. Defendant David C. Habiger (“Habiger”) has served as President and Chief Operating Officer (“COO”) of Sonic since April 2005 and additionally as Chief Executive Officer (“CEO”) of the Company since September 2005. Habiger joined the Company in 1993 and served in a variety of sales and management positions until his promotion in April 2005. Because of Habiger’s positions, he knew the adverse non-public information about the business of Sonic, as well as its finances, markets and present and future business prospects, via access to internal corporate documents, conversations and connections with other corporate officers and employees, attendance at management meetings and via reports and other information provided to him in connection therewith. During the relevant period, Habiger participated in the issuance of false and misleading statements, including the preparation of the false and/or misleading press releases and SEC filings.



1           15. Defendant Robert J. Doris ("Doris") co-founded Sonic in 1986 and has served as the  
2 Company's Chairman of the Board and a director since its inception. Doris additionally served as  
3 the Company's President from its inception until April 2005, and its CEO from the Company's  
4 inception until September 2005. Because of Doris's positions, he knew the adverse non-public  
5 information about the business of Sonic, as well as its finances, markets and present and future  
6 business prospects, via access to internal corporate documents, conversations and connections with  
7 other corporate officers and employees, attendance at management and Board meetings and  
8 committees thereof and via reports and other information provided to him in connection therewith.  
9 During the relevant period, Doris participated in the issuance of false and misleading statements,  
10 including the preparation of the false and/or misleading press releases and SEC filings. Based on his  
11 knowledge of material non-public information regarding the Company, defendant Doris violated Cal.  
12 Corp. Code §§25402 and 25502.5 by selling 1.03 million shares of Sonic stock for proceeds of over  
13 \$17.6 million during the relevant period.  
14  
15

16           16. Defendant A. Clay Leighton ("Leighton") has served as Chief Financial Officer  
17 ("CFO") of Sonic since January 1999, and additionally as Executive Vice President since September  
18 2006. Leighton joined the Company in 1993 as Vice President, Finance and was named Senior Vice  
19 President, Worldwide Sales and Finance from January 1999 until September 2006. Because of  
20 Leighton's positions, he knew the adverse non-public information about the business of Sonic, as  
21 well as its finances, markets and present and future business prospects, via access to internal  
22 corporate documents, conversations and connections with other corporate officers and employees,  
23 attendance at management meetings and via reports and other information provided to him in  
24 connection therewith. Defendant Leighton, by his specialized financial expertise, was in a unique  
25 position to understand the business of Sonic, as well as its finances, markets and present and future  
26 business prospects. During the relevant period, Leighton participated in the issuance of false and/or  
27 misleading statements, including the preparation of the false and/or misleading press releases and  
28 SEC filings. Based on his knowledge of material non-public information regarding the Company,

1 defendant Leighton violated Cal. Corp. Code §§25402 and 25502.5 by selling 341,000 shares of  
2 Sonic stock for proceeds of over \$5.2 million during the relevant period.

3 17. Defendant Mary C. Sauer ("Sauer") co-founded Sonic in 1986 and has served as a  
4 director and Secretary since its inception. Sauer additionally served as Vice President of the  
5 Company from 1986 to September 2005 and as Senior Vice President, Marketing and Sales from  
6 February 1993 to September 2005. Because of Sauer's positions, she knew the adverse non-public  
7 information about the business of Sonic, as well as its finances, markets and present and future  
8 business prospects, via access to internal corporate documents, conversations and connections with  
9 other corporate officers and employees, attendance at management and Board meetings and  
10 committees thereof and via reports and other information provided to her in connection therewith.  
11 During the relevant period, Sauer participated in the issuance of false and/or misleading statements,  
12 including the preparation of the false and/or misleading press releases and SEC filings. Based on her  
13 knowledge of material non-public information regarding the Company, defendant Sauer violated  
14 Cal. Corp. Code §§25402 and 25502.5 by selling 1.03 million shares of Sonic stock for proceeds of  
15 \$17.6 million during the relevant period.

16 18. Defendant Mark Ely ("Ely") has served as Executive Vice President, Strategy of  
17 Sonic since September 2006. Ely joined the Company in 1992, serving in various management roles  
18 until his promotion to his current position in 2006. Because of Ely's positions, he knew the adverse  
19 non-public information about the business of Sonic, as well as its finances, markets and present and  
20 future business prospects, via access to internal corporate documents, conversations and connections  
21 with other corporate officers and employees, attendance at management meetings and via reports and  
22 other information provided to him in connection therewith. During the relevant period, Ely  
23 participated in the issuance of false and/or misleading statements, including the preparation of the  
24 false and/or misleading press releases and SEC filings. Based on his knowledge of material non-  
25 public information regarding the Company, defendant Ely violated Cal. Corp. Code §§25402 and  
26 25502.5 by selling 28,071 shares of Sonic stock for proceeds of \$428,083 during the relevant period.

27 19. Defendant Robert M. Greber ("Greber") has been a director of Sonic since August  
28 1993. Because of Greber's position, he knew the adverse non-public information about the business

1 of Sonic, as well as its finances, markets and present and future business prospects, via access to  
2 internal corporate documents, conversations and connections with other corporate officers and  
3 employees, attendance at Board meetings and committees thereof and via reports and other  
4 information provided to him in connection therewith. As a member (Chair) of the Audit Committee,  
5 defendant Greber caused or allowed the dissemination of the improper public statements described  
6 herein. Defendant Greber qualifies as the committee financial expert. During the relevant period,  
7 Greber participated in the issuance of false and/or misleading statements, including the preparation  
8 of the false and/or misleading press releases and SEC filings. Based on his knowledge of material  
9 non-public information regarding the Company, defendant Greber violated Cal. Corp. Code §§25402  
10 and 25502.5 by selling 87,500 shares of Sonic stock for proceeds of \$1.1 million during the relevant  
11 period.

12       20. Defendant Peter J. Marguglio ("Marguglio") has been a director of Sonic since  
13 August 1986. Because of Marguglio's position, he knew the adverse non-public information about  
14 the business of Sonic, as well as its finances, markets and present and future business prospects, via  
15 access to internal corporate documents, conversations and connections with other corporate officers  
16 and employees, attendance at Board meetings and committees thereof and via reports and other  
17 information provided to him in connection therewith. As a member of the Audit Committee,  
18 defendant Marguglio caused or allowed the dissemination of the improper public statements  
19 described herein. During the relevant period, Marguglio participated in the issuance of false and/or  
20 misleading statements, including the preparation of the false and/or misleading press releases and  
21 SEC filings. Based on his knowledge of material non-public information regarding the Company,  
22 defendant Marguglio violated Cal. Corp. Code §§25402 and 25502.5 by selling 20,000 shares of  
23 Sonic stock for proceeds of \$254,630 during the relevant period.

24       21. Defendant R. Warren Langley ("Langley") has been a director of Sonic since June  
25 2001. Because of Langley's position, he knew the adverse non-public information about the  
26 business of Sonic, as well as its finances, markets and present and future business prospects, via  
27 access to internal corporate documents, conversations and connections with other corporate officers  
28 and employees, attendance at Board meetings and committees thereof and via reports and other



1 information provided to him in connection therewith. As a member of the Audit Committee,  
2 defendant Langley caused or allowed the dissemination of the improper public statements described  
3 herein. During the relevant period, Langley participated in the issuance of false and/or misleading  
4 statements, including the preparation of the false and/or misleading press releases and SEC filings.  
5 Based on his knowledge of material non-public information regarding the Company, defendant  
6 Langley violated Cal. Corp. Code §§25402 and 25502.5 by selling 38,000 shares of Sonic stock for  
7 proceeds of \$696,462 during the relevant period.

8 22. The defendants identified in ¶¶15, 17 and 19-21 are referred to herein as the “Director  
9 Defendants.” The defendants identified in ¶¶14 and 16-18 are referred to herein as the “Officer  
10 Defendants.” The defendants identified in ¶¶15-21 are referred to herein as the “Insider Selling  
11 Defendants.”

#### 12 DEFENDANTS’ DUTIES

13 23. Each officer and director of Sonic named herein owed the Company and Sonic  
14 shareholders the duty to exercise a high degree of care, loyalty and diligence in the management and  
15 administration of the affairs of the Company, as well as in the use and preservation of its property  
16 and assets. The conduct of Sonic’s directors and officers complained of herein involves knowing,  
17 intentional and culpable violations of their obligations as officers and directors of Sonic. Further, the  
18 misconduct of Sonic’s officers has been ratified by Sonic’s Board, which has failed to take any legal  
19 action on behalf of the Company against them.

20 24. By reason of their positions as officers, directors and fiduciaries of Sonic and because  
21 of their ability to control the business and corporate affairs of the Company, the Defendants owed  
22 Sonic and its shareholders fiduciary obligations of candor, trust, loyalty and care, and were required  
23 to use their ability to control and manage Sonic in a fair, just, honest and equitable manner, and to  
24 act in furtherance of the best interests of Sonic and its shareholders so as to benefit all shareholders  
25 equally and not in furtherance of their personal interest or benefit. In addition, as officers and/or  
26 directors of a publicly held company, the Defendants had a duty to refrain from utilizing their control  
27 over Sonic to divert assets to themselves via improper and/or unlawful practices. Defendants also  
28



1 had a duty to promptly disseminate accurate and truthful information with respect to the Company's  
2 operations, earnings and compensation practices.

3 25. Because of their positions of control and authority as directors or officers of Sonic,  
4 each of the Defendants was able to and did, directly and indirectly, control the wrongful acts  
5 complained of herein. As to the Director Defendants, these acts include: (i) agreement to and/or  
6 acquiescence in Defendants' option backdating scheme; and (ii) willingness to cause Sonic to  
7 disseminate false Proxy Statements for 2001-2005, which Proxy Statements failed to disclose  
8 Defendants' option backdating scheme and omitted the fact that executive officers were allowed to  
9 backdate their stock option grants in order to manipulate the strike price of the stock options they  
10 received. Because of their positions with Sonic, each of the Defendants was aware of these wrongful  
11 acts, had access to adverse non-public information and was required to disclose these facts promptly  
12 and accurately to Sonic shareholders and the financial markets but failed to do so.

13 26. Between 2001 and 2005, Defendants repeated in each Proxy Statement that the stock  
14 option grants made during that period carried an exercise price that was *not less than* the fair market  
15 value of Sonic stock on the date granted, as calculated by the public trading price of the stock at the  
16 market's close on that date. However, Defendants concealed until the beginning of February 2007  
17 that the stock option grants were repeatedly and consciously *backdated* to ensure that the strike price  
18 associated with the option grants was at or near the lowest trading price for that fiscal period. Due to  
19 Defendants' breach of their fiduciary duty in the administration of the stock option plans, plaintiff  
20 seeks to have the directors' and officers' plans voided and gains from those plans returned to the  
21 Company. In the alternative, plaintiff seeks to have all of the unexercised options granted to  
22 Defendants between 2001 and 2005 cancelled, the financial gains obtained via the exercise of such  
23 options returned to the Company and to have Defendants revise the Company's financial statements  
24 to reflect the truth concerning these option grants.

25 27. To discharge their duties, the directors of Sonic were required to exercise reasonable  
26 and prudent supervision over the management, policies, practices and controls of the business and  
27 financial affairs of Sonic. By virtue of such duties, the officers and directors of Sonic were required,  
28 among other things, to:

1 (a) manage, conduct, supervise and direct the business affairs of Sonic in  
2 accordance with all applicable law (including federal and state laws, government rules and  
3 regulations and the charter and bylaws of Sonic);

4 (b) neither engage in self-dealing nor knowingly permit any officer, director or  
5 employee of Sonic to engage in self-dealing;

6 (c) neither violate nor knowingly permit any officer, director or employee of  
7 Sonic to violate applicable laws, rules and regulations;

8 (d) remain informed as to the status of Sonic's operations, including its practices  
9 in relation to the cost of allowing the pervasive backdating and improperly accounting for such, and  
10 upon receipt of notice or information of imprudent or unsound practices, to make a reasonable  
11 inquiry in connection therewith, and to take steps to correct such conditions or practices and make  
12 such disclosures as are necessary to comply with the U.S. federal securities laws and their duty of  
13 candor to the Company's shareholders;

14 (e) prudently protect the Company's assets, including taking all necessary steps to  
15 recover corporate assets (cash, stock options) improperly paid to Company executives and directors  
16 together with the related costs (professional fees) proximately caused by the illegal conduct  
17 described herein;

18 (f) establish and maintain systematic and accurate records and reports of the  
19 business and affairs of Sonic and procedures for the reporting of the business and affairs to the Board  
20 of Directors and to periodically investigate, or cause independent investigation to be made of, said  
21 reports and records;

22 (g) maintain and implement an adequate, functioning system of internal legal,  
23 financial and accounting controls, such that Sonic's financial statements – including its expenses,  
24 accounting for stock option grants and other financial information – would be accurate and the  
25 actions of its directors would be in accordance with all applicable laws;

26 (h) exercise control and supervision over the public statements to the securities  
27 markets and trading in Sonic stock by the officers and employees of Sonic; and  
28

1 (i) supervise the preparation and filing of any financial reports or other  
2 information required by law from Sonic and to examine and evaluate any reports of examinations,  
3 audits or other financial information concerning the financial affairs of Sonic and to make full and  
4 accurate disclosure of all material facts concerning, *inter alia*, each of the subjects and duties set  
5 forth above.

6 28. Each Defendant, by virtue of his or her position as a director and/or officer, owed to  
7 the Company and to its shareholders the fiduciary duties of loyalty, good faith and the exercise of  
8 due care and diligence in the management and administration of the affairs of the Company, as well  
9 as in the use and preservation of its property and assets. The conduct of the Defendants complained  
10 of herein involves a knowing and culpable violation of their obligations as directors and/or officers  
11 of Sonic, the absence of good faith on their part, and a reckless disregard for their duties to the  
12 Company and its shareholders, which Defendants were aware or should have been aware posed a  
13 risk of serious injury to the Company. The conduct of the Defendants who were also officers and/or  
14 directors of the Company during the relevant period has been ratified by the Director Defendants  
15 who comprised Sonic's entire Board during the relevant period.

16 29. Defendants breached their duties of loyalty and good faith by allowing or by  
17 themselves causing the Company to misrepresent its financial results and prospects, as detailed  
18 herein *infra*, and by failing to prevent the Defendants from taking such illegal actions. As a result,  
19 Sonic has expended and will continue to expend significant sums of money. Such expenditures  
20 include, but are not limited to:

- 21 (a) improvidently paid executive compensation;
- 22 (b) increased capital costs as a result of the loss of market capitalization and the  
23 Company's damaged reputation in the investment community;
- 24 (c) costs incurred to carry out internal investigations, including legal fees paid to  
25 outside counsel; and
- 26 (d) incurring possible IRS penalties for improperly reporting compensation.

27 30. These actions have irreparably damaged Sonic's corporate image and goodwill. For  
28 at least the foreseeable future, Sonic will suffer from what is known as the "liar's discount," a term



1 applied to the stocks of companies who have been implicated in illegal behavior and have misled the  
2 investing public, such that Sonic's ability to raise equity capital or debt on favorable terms in the  
3 future is now impaired.

#### 4 **AIDING AND ABETTING AND CONCERTED ACTION**

5 31. In committing the wrongful acts alleged herein, Defendants have pursued or joined in  
6 the pursuit of a common course of conduct, and have acted in concert with one another in  
7 furtherance of their common plan or design. In addition to the wrongful conduct herein alleged as  
8 giving rise to primary liability, Defendants further aided and abetted and/or assisted each other in  
9 breach of their respective duties.

10 32. At relevant times, Defendants collectively and individually initiated a course of  
11 conduct which was designed to and did: (i) conceal the fact that the Company was over-paying its  
12 directors, officers and employees and improperly misrepresenting its financial results, in order to  
13 allow Defendants to artificially inflate the price of the Company's shares; (ii) maintain Defendants'  
14 executive and directorial positions at Sonic and the profits, power and prestige which Defendants  
15 enjoyed as a result of these positions; and (iii) deceive the investing public, including shareholders of  
16 Sonic, regarding Defendants' management of Sonic's operations, the Company's financial health  
17 and stability, and future business prospects, which had been misrepresented by Defendants  
18 throughout the relevant period. In furtherance of this course of conduct, Defendants collectively and  
19 individually took the actions set forth herein.

20 33. Defendants engaged in a common course of conduct commencing by at least 2001  
21 and continuing thereafter. During this time, Defendants caused the Company to conceal the true fact  
22 that Sonic was over-compensating its directors, officers and employees and misrepresenting its  
23 financial results. In addition, Defendants also made other specific, false statements about Sonic's  
24 financial performance and future business prospects, as alleged herein.

25 34. The purpose and effect of Defendants' common enterprise and/or common course of  
26 conduct was, among other things, to disguise Defendants' violations of law, breaches of fiduciary  
27 duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment; to  
28 conceal adverse information concerning the Company's operations, financial condition, and future

1 business prospects; and to artificially inflate the price of Sonic common stock so they could protect  
2 and enhance their executive and directorial positions and the substantial compensation and prestige  
3 they obtained as a result thereof.

4 35. Defendants accomplished their common enterprise and/or common course of conduct  
5 by causing the Company to purposefully, recklessly or negligently grant under-priced stock options  
6 and to misrepresent its financial results. Because the actions described herein occurred under the  
7 authority of the Board of Directors, each of the Defendants was a direct, necessary, and substantial  
8 participant in the common enterprise and/or common course of conduct complained of herein.

9 36. Each of the Defendants aided and abetted and rendered substantial assistance in the  
10 wrongs complained of herein. In taking such actions to substantially assist the commission of the  
11 wrongdoing complained of herein, each of the Defendants acted with knowledge of the primary  
12 wrongdoing, substantially assisted the accomplishment of that wrongdoing, and was aware of his or  
13 her overall contribution to and furtherance of the wrongdoing.

#### 14 **BACKGROUND**

15 37. Sonic engages in the development and marketing of computer software related to  
16 digital media. The Company has three divisions: Professional Products, Roxio, and Advanced  
17 Technology. The Professional Products division offers professional-level hardware and software  
18 authoring solutions for creating packaged media releases in DVD-Video, DVD-ROM, HD DVD, and  
19 BD formats. This division's products include Scenarist Workgroup; SD-series and CineVision video  
20 and audio encoders; DVDit, DVDit Pro, and eDVD. This division also provides content  
21 development technology, products, and services that enable professional DVD-ROM publishers to  
22 create interactivity and seamless Internet connectivity for DVD-Video titles. The Roxio division  
23 offers various digital media software application products under the Roxio brand name. This  
24 division sells and markets its products through product bundling arrangements with original  
25 equipment manufacturer suppliers of related products, as well as through its Web store and in retail  
26 channels. The Advanced Technology division develops, licenses, and supplies software and  
27 software components under the AuthorScript, CinePlayer and Roxio brand names to PC application  
28 and consumer electronics developers. The Company's products are used in creating digital audio

1 and video titles; recording data files; editing video programs; playing DVD, HD DVD, and BD  
2 discs; managing digital media on a computer or consumer electronic device file system; editing and  
3 adjusting digital photographs and other images; and backing up the information contained on hard  
4 disks attached to computers and consumer electronic devices.

5 38. Throughout the relevant period, Defendants caused Sonic to grant them millions of  
6 stock options permitting them to buy Sonic stock for pennies on the dollar which they could in turn  
7 sell as the Company's stock price increased. A stock option gives the holder the right to buy a stock  
8 at a certain price in the future. Typically, companies set that price at the same time their directors  
9 approve an option grant, with an exercise price – also known as the “strike price” – usually set at the  
10 closing price of the stock that day, the closing price of the night before or by computing an average  
11 of the high and low prices on the day of the vote.

12 39. However, many of the millions of options granted to Sonic's executives had a hidden,  
13 valuable component: they were misdated, often making them even more significantly valuable. The  
14 misdated stock option grants fell largely into three categories: (i) “look back” grants, in which the  
15 date of the grant was picked retroactively (*e.g.*, a decision in February to pick a January date); (ii)  
16 “wait and see” grants, in which a grant date was selected, but the decision was finalized – and  
17 sometimes changed – at a later date (*e.g.*, a decision on January 1 to issue a grant on January 15, but  
18 there is a period after January 15 in which the grantor waits to see if a more advantageous price  
19 occurs and, if one does, uses that later date instead); and (iii) grants where there was a failure to  
20 complete the option grant process by the date of the grant (*e.g.*, where there is a decision to issue a  
21 grant as of a certain date, but after that date there are changes in the grantees or amounts to grantees,  
22 and although the work is not complete on those grants as of the stated grant date, that date is  
23 nonetheless used).



## STOCK OPTION GRANTS

40. Certain of Sonic's manipulative stock option grants are described below:

### **Fiscal 2002<sup>1</sup> Option Grants**

41. Defendants dated many of Sonic's fiscal 2002 option grants to top executives as of July 12, 2001, at \$1.12 per share – the low of the month. Within five days, the stock closed at \$1.40 per share. Defendants Doris, Sauer and Leighton received 90,000, 90,000 and 40,000 options, respectively, at the \$1.12 exercise price.

### **Fiscal 2003 Option Grants**

42. Defendants dated many of Sonic's fiscal 2003 option grants to top executives as of March 11, 2003, at \$3.97 per share – the low of the month. Within two weeks, the stock closed above \$5.00 per share. Defendant Leighton received 100,000 options at the \$3.97 exercise price. Notwithstanding the fact that this purported grant occurred after the enactment of the Sarbanes-Oxley Act of 2002, which requires that all such equity transactions be reported within two days, no Form 4 was timely filed for this purported grant date.

### **Fiscal 2005 Option Grants**

43. Another post-Sarbanes-Oxley grant to Leighton was made as of May 10, 2004 at \$17.49 per share. This grant was made just as Sonic announced an agreement with Microsoft which pushed the price of Sonic stock to above \$19 per share within three days and to above \$21 per share by the end of May 2004. Defendant Leighton received 100,000 options with the \$17.49 exercise price.

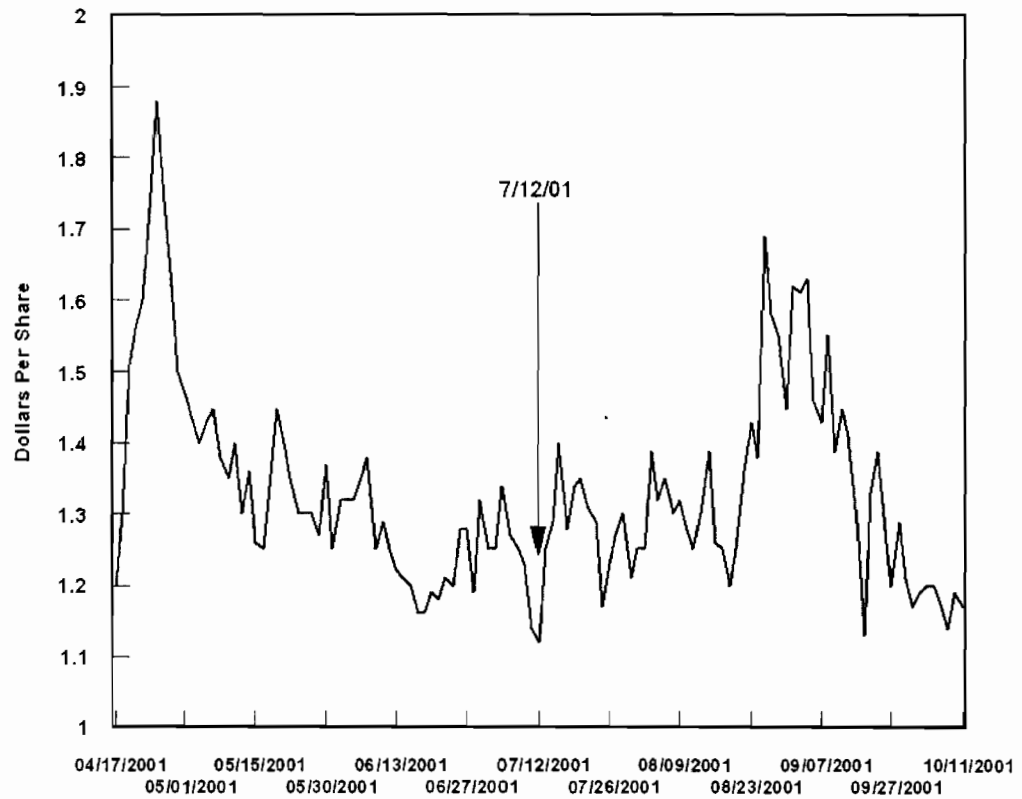
44. Below are several of Sonic's grants which occurred right before significant stock price increases:

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<sup>1</sup> Sonic's fiscal year ends March 31.

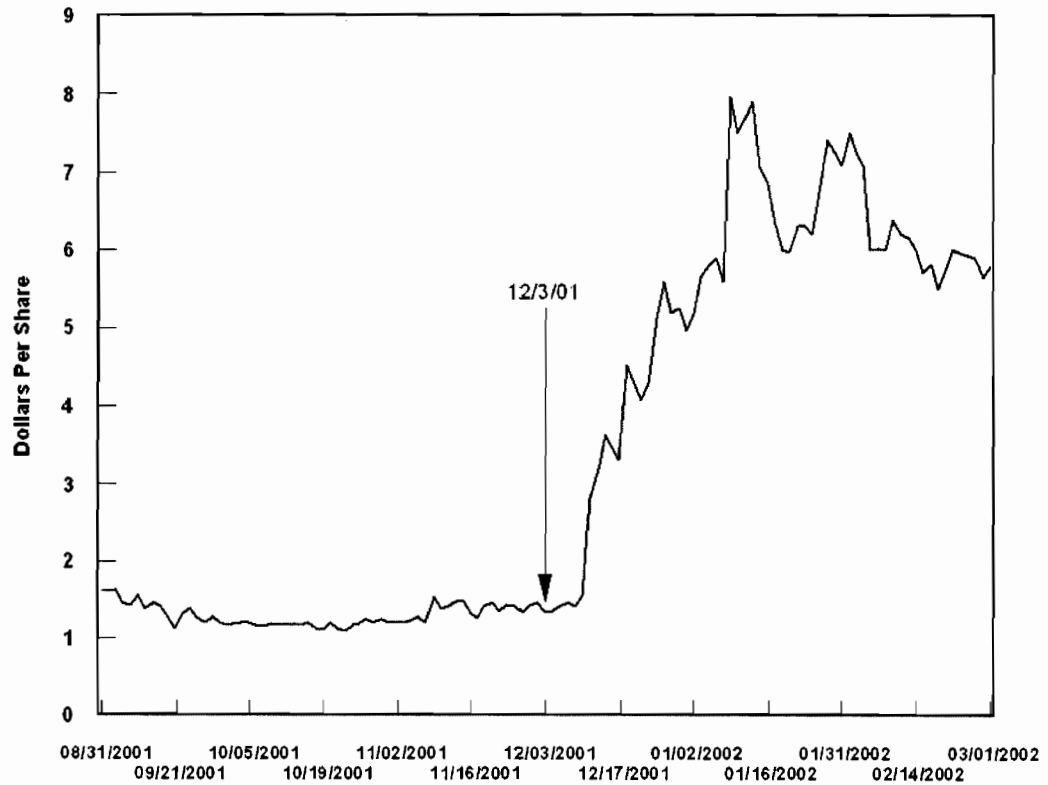
**SonicSolutions**

April 17, 2001 - October 11, 2001

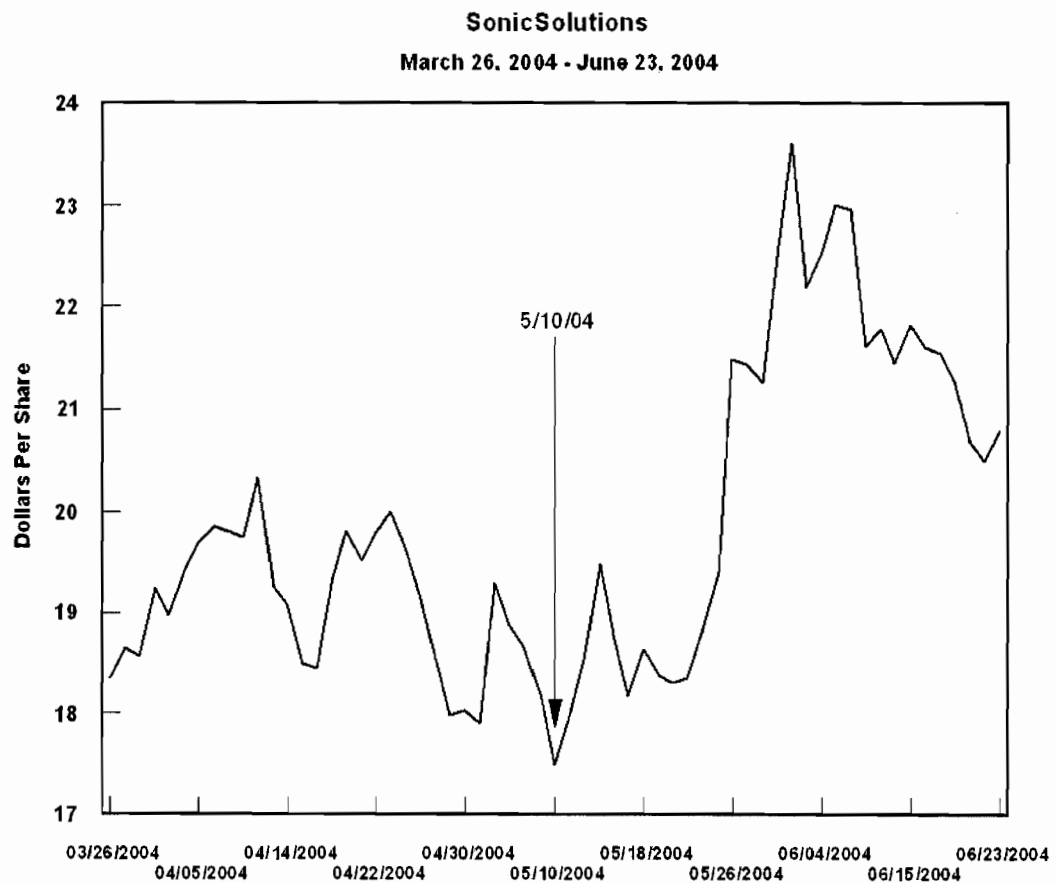
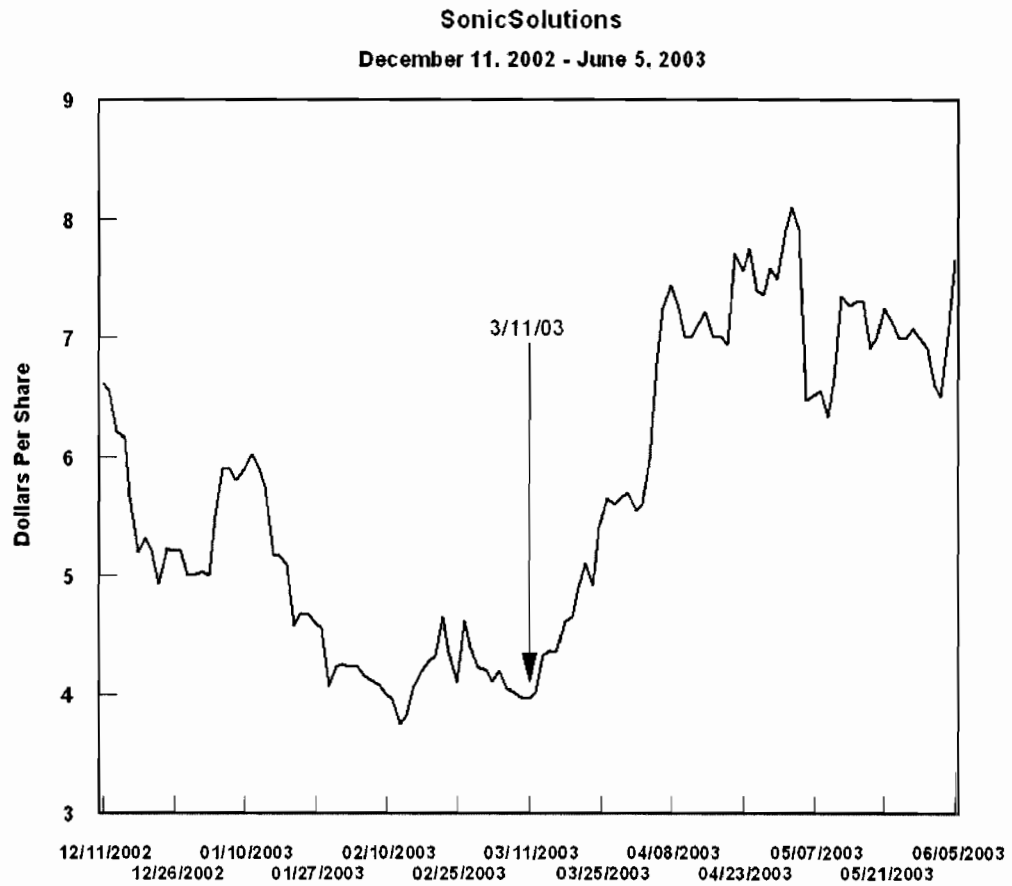


**SonicSolutions**

August 31, 1001 - March 1, 2002



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1           45.     Complicating matters and magnifying the harm to Sonic, during the relevant period,  
2 Sonic's internal controls and accounting controls with respect to option grants and exercises, and its  
3 financial reporting, were grossly inadequate. The weaknesses allowed dates of both grants and  
4 exercises to be manipulated and the Company's executive compensation expenses to be materially  
5 understated. They also allowed grant dates to be changed to provide executives with more favorably  
6 priced options, in effect augmenting their compensation, with no benefit running to the Company.

7           46.     Specifically, in many instances the reported dates Sonic stock options were granted  
8 differed from the dates on which the options appear to have been actually granted. The practice  
9 applied to the overwhelming majority of stock option grants made during the relevant period, which  
10 allowed executives and employees to make more money on their options because it set a lower  
11 "strike price" at which the options could be exercised, allowing employees to take larger profits  
12 when the stock price later rose. In almost every case of misdating, the price of Sonic shares on the  
13 reported option-grant date was lower than the share price on the actual day the options were issued.

14           47.     Through their fiduciary duties of care, good faith and loyalty, Defendants owed to  
15 Sonic a duty to ensure that the Company's financial reporting fairly presented, in all material  
16 respects, the operations and financial condition of the Company. In order to adequately carry out  
17 these duties, it is necessary for the Defendants to know and understand the material non-public  
18 information to be either disclosed or omitted from the Company's public statements. This material  
19 non-public information included the problems Sonic faced because of its deficient internal controls.  
20 Furthermore, Defendants who were members of the Audit Committee during the relevant period had  
21 a special duty to know and understand this material information as set out in the Audit Committee's  
22 charter, which provides that the Audit Committee is responsible for reviewing, in conjunction with  
23 management, the Company's policies generally with respect to the Company's earnings press  
24 releases and with respect to financial information and earnings guidance provided to analysts and  
25 rating agencies. Defendants, as officers of Sonic during the relevant period, had ample opportunity  
26 to discuss this material information with their fellow officers at management meetings and via  
27 internal corporate documents and reports. Moreover, the defendants who were directors during the  
28 relevant period had ample opportunity to discuss this material information with fellow directors at

any of the scores of Board meetings that occurred during the relevant period as well as at committee meetings of the Board. Despite these duties, Defendants negligently, recklessly, and/or intentionally caused or allowed, by their actions or inaction, the misleading statements to be disseminated by Sonic to the investing public and the Company's shareholders during the relevant period.

48. Specifically, since 2001, Defendants caused Sonic to report false and misleading financial results which materially understated its compensation expenses and thus overstated its earnings as follows:

<b>Fiscal Year</b>	<b>Reported Earnings (Loss) (in Millions)</b>	<b>Reported Diluted Earnings (Loss) Per Share from Continuing Operations</b>
2001	\$(5.86)	\$(0.47)
2002	\$(4.18)	\$(0.25)
2003	\$2.54	\$0.32
2004	\$11.08	\$0.46
2005	\$8.54	\$0.76
2006	\$19.93	\$1.00

49. Moreover, throughout the relevant period certain of the Defendants and former officers exercised many of these stock options contributing to their ability to sell over \$43 million worth of Sonic stock they obtained often by cashing in under-priced stock options:

<b>DEFENDANT</b>	<b>DATES OF SALES</b>	<b>SHARES SOLD</b>	<b>PROCEEDS RECEIVED</b>
<b>DORIS</b>	08/22/02-01/08/07	1,031,000	\$17,672,635
<b>LEIGHTON</b>	03/02/00-08/25/05	341,000	\$5,240,870
<b>SAUER</b>	08/22/02-01/08/07	1,031,000	\$17,672,635
<b>ELY</b>	09/05/06	28,071	\$428,083
<b>GREBER</b>	02/22/00-09/07/05	87,500	\$1,128,765
<b>MARGUGLIO</b>	08/22/03-08/28/03	20,000	\$254,630
<b>LANGLEY</b>	08/04/03-09/06/05	38,000	\$696,462
<b>TOTAL</b>		<b>2,576,571</b>	<b>\$43,094,080</b>

50. On February 1, 2007, Sonic announced that it had initiated an internal review of its historical stock option grant practices, stating in part:

Sonic Solutions, the world leader in digital media software, announced today that it has commenced a voluntary review of its historical and current stock option grant practices and related accounting. The review was initiated by management and is being conducted by the audit committee of the board of directors, comprised solely of independent directors, with the assistance of independent legal counsel. The audit committee and Company management have been discussing this ongoing review with the Company's independent auditors and have voluntarily informed the Securities and Exchange Commission of the review.

1 Based on the review to date, the audit committee and Company management  
2 have preliminarily concluded that, under applicable accounting guidance, the  
3 Company lacks sufficient documentation for certain historical option grants and that  
4 the measurement dates associated with these option grants may need to be adjusted.  
Based also on this review, the Company believes that its current options granting  
practices are generally acceptable and meet relevant standards for properly  
documenting grant dates.

5 The audit committee continues to analyze the impact of this issue, but  
6 believes it will result in significant non-cash charges. These charges will principally  
7 affect prior fiscal years, and the Company believes that the accounting adjustments  
8 will not have any impact on previously reported cash positions or revenues. The  
9 Company has not yet determined the amount or materiality of any such non-cash  
10 charges, any resulting cash charges associated with tax issues, or accounting or other  
11 consequences. Although the timeframe for completing the review is uncertain, the  
12 Company continues to be focused on completing this review in a timely manner.  
Based on the preliminary conclusions of the review, the audit committee and  
management believe that the Company will need to restate its previously issued  
financial statements in order to record additional non-cash charges for stock-based  
compensation expense. However, given that the audit committee review is still  
ongoing, the audit committee has not yet determined which years or periods will  
need to be restated.

13 51. In effect, during the relevant period, the Defendants caused Sonic's shares to trade at  
14 artificially inflated levels by issuing a series of materially false and misleading statements regarding  
15 the Company's financial statements, business and prospects. Specifically, Defendants caused or  
16 allowed Sonic to issue statements that failed to disclose or misstated the following: (i) that the  
17 Company had problems with its internal controls that prevented it from issuing accurate financial  
18 reports and projections; (ii) that because of improperly recorded stock-based compensation expenses  
19 the Company's financial results violated GAAP; and (iii) that the Company's public disclosures  
20 presented an inflated view of Sonic's earnings and earnings per share.

#### 21 **DERIVATIVE AND DEMAND FUTILITY ALLEGATIONS**

22 52. Plaintiff brings this action derivatively in the right and for the benefit of Sonic to  
23 redress injuries suffered and to be suffered by Sonic as a direct result of Defendants' violations of  
24 state and federal law, breaches of fiduciary duty, abuse of control, constructive fraud, gross  
25 mismanagement, corporate waste and unjust enrichment, as well as the aiding and abetting thereof,  
26 by the Defendants. This is not a collusive action to confer jurisdiction on this Court which it would  
27 not otherwise have.  
28



1           53. Plaintiff will adequately and fairly represent the interests of Sonic and its  
2 shareholders in enforcing and prosecuting its rights.

3           54. Plaintiff is an owner of Sonic stock and was an owner of Sonic stock during times  
4 relevant to Defendants' illegal and wrongful course of conduct alleged herein.

5           55. Based upon the facts set forth throughout this Complaint, a pre-filing demand upon  
6 the Sonic Board of Directors to institute this action against the officers and members of the Sonic  
7 Board of Directors is excused as futile. A pre-filing demand would be a useless and futile act  
8 because:

9           (a) The members of Sonic's Board have demonstrated their unwillingness and/or  
10 inability to act in compliance with their fiduciary obligations and/or to sue themselves and/or their  
11 fellow directors and allies in the top ranks of the corporation for the violations of law complained of  
12 herein. These are people they have developed professional relationships with, who are their friends  
13 and with whom they have entangling financial alliances, interests and dependencies, and therefore,  
14 they are not able to and will not vigorously prosecute any such action.

15           (b) The Sonic Board of Directors and senior management participated in,  
16 approved and/or permitted the wrongs alleged herein to have occurred and participated in efforts to  
17 conceal or disguise those wrongs from Sonic's stockholders or recklessly and/or negligently  
18 disregarded the wrongs complained of herein, and are therefore not disinterested parties. As a result  
19 of their access to and review of internal corporate documents, conversations and connections with  
20 other corporate officers, employees, and directors, and attendance at management and/or Board  
21 meetings, each of the Defendants knew the adverse non-public information regarding the improper  
22 stock option grants and financial reporting. Pursuant to their specific duties as Board members,  
23 Defendants are charged with the management of the Company and to conduct its business affairs.  
24 Defendants breached the fiduciary duties that they owed to Sonic in that they failed to prevent and  
25 correct the improper stock option granting and financial reporting. Certain directors are also  
26 dominated and controlled by other Defendants and cannot act independently of them. Thus, the  
27 Sonic Board cannot exercise independent objective judgment in deciding whether to bring this action  
28

1 or whether to vigorously prosecute this action because each of its members participated personally in  
2 the wrongdoing or are dependent upon other Defendants who did.

3 (c) The acts complained of constitute violations of the fiduciary duties owed by  
4 Sonic's officers and directors and these acts are incapable of ratification.

5 (d) The members of Sonic's Board have benefited, and will continue to benefit,  
6 from the wrongdoing herein alleged and have engaged in such conduct to preserve their positions of  
7 control and the perquisites derived thereof, and are incapable of exercising independent objective  
8 judgment in deciding whether to bring this action.

9 (e) Any suit by the current directors of Sonic to remedy these wrongs would  
10 likely further expose the liability of Defendants under the federal securities laws, which could result  
11 in civil and/or criminal actions being filed against one or more of the Defendants, thus, they are  
12 hopelessly conflicted in making any supposedly independent determination on whether to sue  
13 themselves.

14 (f) Sonic has been and will continue to be exposed to significant losses due to the  
15 wrongdoing complained of herein, yet Sonic's Board has not filed any lawsuits against Defendants  
16 or others who were responsible for that wrongful conduct to attempt to recover for Sonic any part of  
17 the damages Sonic suffered and will suffer thereby.

18 (g) In order to properly prosecute this lawsuit, Sonic's directors would have to sue  
19 themselves and the other Defendants, requiring them to expose themselves and their comrades to  
20 millions of dollars in civil liability and/or sanctions. This they will not do.

21 (h) Sonic's current and past officers and directors are protected against personal  
22 liability for their acts of mismanagement, waste and breach of fiduciary duty alleged in this  
23 Complaint by directors' and officers' liability insurance which they caused the Company to purchase  
24 for their protection with corporate funds, *i.e.*, monies belonging to the stockholders of Sonic.  
25 However, due to certain changes in the language of directors' and officers' liability insurance  
26 policies in the past few years, the directors' and officers' liability insurance policies covering the  
27 Defendants in this case contain provisions which eliminate coverage for any action brought directly  
28 by Sonic against these Defendants, known as, *inter alia*, the "insured versus insured exclusion." As

1 a result, if these directors were to sue themselves or certain of the officers of Sonic, there would be  
2 no directors' and officers' insurance protection and thus, this is a further reason why they will not  
3 bring such a suit. On the other hand, if the suit is brought derivatively, as this action is brought, such  
4 insurance coverage exists and will provide a basis for the Company to effectuate a recovery.

5 (i) To bring this action for breaching their fiduciary duties, the members of the  
6 Sonic Board would have been required to sue themselves and/or their fellow directors and allies in  
7 the top ranks of the Company, who are their personal friends and with whom they have entangling  
8 financial alliances, interests and dependencies, which they would not do.

9 56. Plaintiff has not made any demand on shareholders of Sonic to institute this action  
10 since such demand would be a futile and useless act for the following reasons:

11 (a) Sonic is a publicly traded company with approximately 26 million shares  
12 outstanding, and thousands of shareholders;

13 (b) Making demand on such a number of shareholders would be impossible for  
14 plaintiff who has no way of finding out the names, addresses or phone numbers of shareholders; and

15 (c) Making demand on all shareholders would force plaintiff to incur huge  
16 expenses, assuming all shareholders could be individually identified.

### 17 THE STOCK OPTION BACKDATING SCHEME AND ITS 18 IMPACT ON SONIC'S FINANCIAL STATEMENTS

#### 19 The Fiscal 2000 Form 10-K

20 57. On or about June 28, 2000, the Company filed its fiscal 2000 Form 10-K with the  
21 SEC. The fiscal 2000 Form 10-K was simultaneously distributed to shareholders and the public.  
22 The fiscal 2000 Form 10-K included Sonic's 2000 financial statements which were materially false  
23 and misleading and presented in violation of GAAP, due to improper accounting for the backdated  
24 stock options. As a result, Sonic's compensation expense was understated and its net earnings were  
25 overstated.

#### 26 The Fiscal 2001 Form 10-K

27 58. On or about June 27, 2001, the Company filed its fiscal 2001 Form 10-K with the  
28 SEC. The fiscal 2001 Form 10-K was simultaneously distributed to shareholders and the public.



1 The fiscal 2001 Form 10-K included Sonic's 2001 financial statements which were materially false  
2 and misleading and presented in violation of GAAP, due to its improper accounting for the  
3 backdated stock options. As a result, Sonic's compensation expense was understated and its net  
4 earnings were overstated.

5 **The Fiscal 2002 Form 10-K**

6 59. On or about June 28, 2002, the Company filed its fiscal 2002 Form 10-K with the  
7 SEC. The fiscal 2002 Form 10-K was simultaneously distributed to shareholders and the public.  
8 The fiscal 2002 Form 10-K included Sonic's 2002 financial statements which were materially false  
9 and misleading and presented in violation of GAAP, due to its improper accounting for the  
10 backdated stock options. As a result, Sonic's compensation expense was understated and its net  
11 earnings were overstated.

12 **The Fiscal 2003 Form 10-K**

13 60. On or about June 26, 2003, the Company filed its fiscal 2003 Form 10-K with the  
14 SEC. The fiscal 2003 Form 10-K was simultaneously distributed to shareholders and the public.  
15 The fiscal 2003 Form 10-K included Sonic's 2003 financial statements which were materially false  
16 and misleading and presented in violation of GAAP, due to improper accounting for the backdated  
17 stock options. As a result, Sonic's compensation expense was understated and its net earnings were  
18 overstated.

19 **The Fiscal 2004 Form 10-K**

20 61. On or about June 14, 2004, the Company filed its fiscal 2004 Form 10-K with the  
21 SEC. The fiscal 2004 Form 10-K was simultaneously distributed to shareholders and the public.  
22 The fiscal 2004 Form 10-K included Sonic's 2004 financial statements which were materially false  
23 and misleading and presented in violation of GAAP, due to improper accounting for the backdated  
24 stock options. As a result, Sonic's compensation expense was understated and its net earnings were  
25 overstated.

26 **The Fiscal 2005 Form 10-K**

27 62. On or about June 29, 2005, the Company filed its fiscal 2005 Form 10-K with the  
28 SEC. The fiscal 2005 Form 10-K was simultaneously distributed to shareholders and the public.



1 The fiscal 2005 Form 10-K included Sonic's 2005 financial statements which were materially false  
2 and misleading and presented in violation of GAAP, due to its improper accounting for the  
3 backdated stock options. As a result, Sonic's compensation expense was understated and its net  
4 earnings were overstated.

5 **The Fiscal 2006 Form 10-K**

6 63. On or about June 14, 2006, the Company filed its fiscal 2006 Form 10-K with the  
7 SEC. The fiscal 2006 Form 10-K was simultaneously distributed to shareholders and the public.  
8 The fiscal 2006 Form 10-K included Sonic's 2006 financial statements which were materially false  
9 and misleading and presented in violation of GAAP, due to its improper accounting for the  
10 backdated stock options. As a result, Sonic's compensation expense was understated and its net  
11 earnings were overstated.

12 **DEFENDANTS' SCHEME BEGINS TO UNRAVEL**

13 64. The 2001-2005 Proxy Statements concealed Defendants' option backdating scheme.  
14 Thus, the Company's shareholders remained unaware of Defendants' wrongdoing when voting on  
15 proxy proposals between 2001 and 2005. In fact, it was not until early February 2007 that  
16 shareholders learned that the Proxy Statements which they had relied upon for years were false and  
17 misleading. Defendants have been unjustly enriched at the expense of Sonic, which has received and  
18 will receive less money from the Defendants when they exercise their options at prices substantially  
19 lower than they would have if the options had not been backdated. Each dollar diverted to  
20 Defendants via the option backdating scheme has come at the expense of the Company.

21 **THE ADVERSE IMPACT OF DEFENDANTS' MISCONDUCT**

22 65. Unlike most companies which avoid such option backdating abuse by issuing stock  
23 option grants at the same time each year, which eliminates the potential for backdating, Defendants  
24 ensured that executives would not have any such restrictions. Given the many times Sonic's grants  
25 were the low of the month in which options were granted, the date of their stock option grants was  
26 clearly more than merely coincidental.

27 66. As a result of the backdating of options, Defendants have been unjustly enriched at  
28 the expense of Sonic, which has received and will receive less money from Defendants when they

1 exercise their options at prices substantially lower than they would have if the options had not been  
2 backdated.

### 3 TOLLING OF THE STATUTE OF LIMITATIONS

4 67. The Counts alleged herein are timely. As an initial matter, Defendants wrongfully  
5 concealed their manipulation of the stock option plans, through strategic timing and fraudulent  
6 backdating, by issuing false and misleading Proxy Statements, by falsely reassuring Sonic's public  
7 investors that Sonic's option grants were being administered by a committee of independent  
8 directors, and by failing to disclose that backdated options were, in fact, actually issued on dates  
9 other than those disclosed, and that strategically timed option grants were issued based on the  
10 manipulation of insider information that ensured that the true fair market value of the Company's  
11 stock was, in fact, higher than the publicly traded price on the date of the option grant.

12 68. Sonic's public investors had no reason to know of the Defendants' breaches of their  
13 fiduciary duties until February 1, 2007, when Sonic announced that it was initiating a review of its  
14 purported improprieties in the issuance of stock options, stating in part:

15 Sonic Solutions, the world leader in digital media software, announced today that it  
16 has commenced a voluntary review of its historical and current stock option grant  
17 practices and related accounting. The review was initiated by management and is  
18 being conducted by the audit committee of the board of directors, comprised solely  
19 of independent directors, with the assistance of independent legal counsel. The audit  
20 committee and Company management have been discussing this ongoing review  
21 with the Company's independent auditors and have voluntarily informed the  
22 Securities and Exchange Commission of the review.

23 Based on the review to date, the audit committee and Company management  
24 have preliminarily concluded that, under applicable accounting guidance, the  
25 Company lacks sufficient documentation for certain historical option grants and that  
26 the measurement dates associated with these option grants may need to be adjusted.  
27 Based also on this review, the Company believes that its current options granting  
28 practices are generally acceptable and meet relevant standards for properly  
documenting grant dates.

The audit committee continues to analyze the impact of this issue, but  
believes it will result in significant non-cash charges. These charges will principally  
affect prior fiscal years, and the Company believes that the accounting adjustments  
will not have any impact on previously reported cash positions or revenues. The  
Company has not yet determined the amount or materiality of any such non-cash  
charges, any resulting cash charges associated with tax issues, or accounting or other  
consequences. Although the timeframe for completing the review is uncertain, the  
Company continues to be focused on completing this review in a timely manner.  
Based on the preliminary conclusions of the review, the audit committee and  
management believe that the Company will need to restate its previously issued

1 financial statements in order to record additional non-cash charges for stock-based  
2 compensation expense. However, given that the audit committee review is still  
3 ongoing, the audit committee has not yet determined which years or periods will  
4 need to be restated.

5 69. Finally, as fiduciaries of Sonic and its public shareholders, the Defendants cannot rely  
6 on any limitations defense where they withheld from Sonic's public shareholders the facts that give  
7 rise to the claims asserted herein, *i.e.*, that the Sonic Board had abdicated its fiduciary  
8 responsibilities to oversee the Company's executive compensation practices, and that the option  
9 grant dates had been manipulated to maximize the profit for the grant recipients and, accordingly, to  
10 maximize the costs for the Company.

### 11 **COUNT I**

#### 12 **Violations of §14(a) of the Exchange Act** 13 **Against All Defendants**

14 70. Plaintiff incorporates by reference and realleges each and every allegation set forth  
15 above, as though fully set forth herein.

16 71. Rule 14a-9, promulgated pursuant to §14(a) of the Exchange Act, provides that no  
17 proxy statement shall contain "any statement which, at the time and in the light of the circumstances  
18 under which it is made, is false or misleading with respect to any material fact, or which omits to  
19 state any material fact necessary in order to make the statements therein not false or misleading." 17  
20 C.F.R. §240.14a-9.

21 72. The 2001-2005 Proxy Statements violated §14(a) and Rule 14a-9 because they  
22 omitted material facts, including the fact that Defendants were causing Sonic to engage in an option  
23 backdating scheme, a fact which Defendants were aware of and participated in from at least 2001.

24 73. In the exercise of reasonable care, Defendants should have known that the Proxy  
25 Statements were materially false and misleading.

26 74. The misrepresentations and omissions in the Proxy Statements were material to  
27 plaintiff in voting on each Proxy Statement. The Proxy Statements were an essential link in the  
28 accomplishment of the continuation of Defendants' unlawful stock option backdating scheme, as  
revelations of the truth would have immediately thwarted a continuation of shareholders'



1 endorsement of the directors' positions, the executive officers' compensation and the Company's  
2 compensation policies.

3 75. The Company was damaged as a result of the material misrepresentations and  
4 omissions in the Proxy Statements.

5 **COUNT II**

6 **Accounting**

7 76. Plaintiff incorporates by reference and realleges each and every allegation set forth  
8 above, as though fully set forth herein.

9 77. At all relevant times, Defendants, as directors and/or officers of Sonic, owed the  
10 Company and its shareholders fiduciary duties of good faith, care, candor and loyalty.

11 78. In breach of their fiduciary duties owed to Sonic and its shareholders, the Defendants  
12 caused Sonic, among other things, to grant backdated stock options to themselves and/or certain  
13 other officers and directors of Sonic. By this wrongdoing, the Defendants breached their fiduciary  
14 duties owed to Sonic and its shareholders.

15 79. The Defendants possess complete and unfettered control over their improperly issued  
16 stock option grants and the books and records of the Company concerning the details of such  
17 improperly backdated stock option grants to the Defendants.

18 80. As a result of Defendants' misconduct, Sonic has been substantially injured and  
19 damaged financially and is entitled to a recovery as a result thereof, including the proceeds of those  
20 improperly granted options which have been exercised and sold.

21 81. Plaintiff demands an accounting be made of all stock option grants made to  
22 Defendants, including, without limitation, the dates of the grants, the amounts of the grants, the  
23 value of the grants, the recipients of the grants, the exercise date of stock options granted to the  
24 Defendants, as well as the disposition of any proceeds received by the Defendants via sale or other  
25 exercise of backdated stock option grants received by the Defendants.



**COUNT III**

**Breach of Fiduciary Duty and/or Aiding and Abetting  
Against All Defendants**

82. Plaintiff incorporates by reference and realleges each and every allegation set forth above, as though fully set forth herein.

83. Defendants agreed to and did participate with defendants Doris and Sauer and the other Defendants and/or aided and abetted one another in a deliberate course of action designed to divert corporate assets in breach of the fiduciary duties the Defendants owed to the Company.

84. The Defendants have violated fiduciary duties of care, loyalty, candor and independence owed to Sonic and its public shareholders, have engaged in unlawful self-dealing and have acted to put their personal interests and/or their colleagues' interests ahead of the interests of Sonic and its shareholders.

85. As demonstrated by the allegations above, Defendants failed to exercise the care required, and breached their duties of loyalty, good faith, candor and independence owed to Sonic and its public shareholders, and they failed to disclose material information and/or made material misrepresentations to shareholders regarding Defendants' option backdating scheme.

86. By reason of the foregoing acts, practices and course of conduct, the Defendants have failed to exercise ordinary care and diligence in the exercise of their fiduciary obligations toward Sonic and its public shareholders.

87. As a proximate result of Defendants' conduct, in concert with Doris and Sauer and other insiders, Sonic has been injured and is entitled to damages.

**COUNT IV**

**Abuse of Control Against All Defendants**

88. Plaintiff incorporates by reference and realleges each and every allegation set forth above, as though fully set forth herein.

89. The Defendants employed the alleged scheme for the purpose of maintaining and entrenching themselves in their positions of power, prestige and profit at, and control over, Sonic, and to continue to receive the substantial benefits, salaries and emoluments associated with their

1 positions at Sonic. As a part of this scheme, Defendants actively made and/or participated in the  
2 making of, or aided and abetted the making of, misrepresentations regarding Sonic.

3 90. Defendants' conduct constituted an abuse of their ability to control and influence  
4 Sonic.

5 91. By reason of the foregoing, Sonic has been damaged.

## 6 **COUNT V**

### 7 **Gross Mismanagement Against All Defendants**

8 92. Plaintiff incorporates by reference and realleges each and every allegation set forth  
9 above, as though fully set forth herein.

10 93. Defendants had a duty to Sonic and its shareholders to prudently supervise, manage  
11 and control the operations, business and internal financial accounting and disclosure controls of  
12 Sonic.

13 94. Defendants, by their actions and by engaging in the wrongdoing described herein,  
14 abandoned and abdicated their responsibilities and duties with regard to prudently managing the  
15 businesses of Sonic in a manner consistent with the duties imposed upon them by law. By  
16 committing the misconduct alleged herein, Defendants breached their duties of due care, diligence  
17 and candor in the management and administration of Sonic's affairs and in the use and preservation  
18 of Sonic's assets.

19 95. During the course of the discharge of their duties, Defendants knew or recklessly  
20 disregarded the unreasonable risks and losses associated with their misconduct, yet Defendants  
21 caused Sonic to engage in the scheme complained of herein which they knew had an unreasonable  
22 risk of damage to Sonic, thus breaching their duties to the Company. As a result, Defendants grossly  
23 mismanaged Sonic.

24 96. By reason of the foregoing, Sonic has been damaged.

## 25 **COUNT VI**

### 26 **Constructive Fraud Against All Defendants**

27 97. Plaintiff incorporates by reference and realleges each and every allegation set forth  
28 above, as though fully set forth herein.

98. As corporate fiduciaries, Defendants owed to Sonic and its shareholders a duty of candor and full accurate disclosure regarding the true state of Sonic's business and assets and their conduct with regard thereto.

99. As a result of the conduct complained of, Defendants made, or aided and abetted the making of, numerous misrepresentations to and/or concealed material facts from Sonic's shareholders despite their duties to, *inter alia*, disclose the true facts regarding their stewardship of Sonic. Thus they have committed constructive fraud and violated their duty of candor.

100. By reason of the foregoing, Sonic has been damaged.

## COUNT VII

## Corporate Waste Against All Defendants

101. Plaintiff incorporates by reference and realleges each and every allegation set forth above, as though fully set forth herein.

102. By failing to properly consider the interests of the Company and its public shareholders, by failing to conduct proper supervision, by giving away millions of dollars to Defendants via the option backdating scheme, Defendants have caused Sonic to waste valuable corporate assets.

103. As a result of Defendants' corporate waste, they are liable to the Company.

## COUNT VIII

## Unjust Enrichment Against All Defendants

104. Plaintiff incorporates by reference and realleges each and every allegation set forth above, as though fully set forth herein.

105. As a result of the conduct described above, Defendants will be and have been unjustly enriched at the expense of Sonic, in the form of unjustified salaries, benefits, bonuses, stock option grants and other emoluments of office.

106. All the payments and benefits provided to the Defendants were at the expense of Sonic. The Company received no benefit from these payments. Sonic was damaged by such payments.

107. Certain of the Defendants sold Sonic stock for a profit during the period of deception, misusing confidential non-public corporate information. These Defendants should be required to disgorge the gains which they have and/or will otherwise unjustly obtain at the expense of Sonic. A constructive trust for the benefit of the Company should be imposed thereon.

**COUNT IX**

### Against the Officer Defendants for Rescission

108. Plaintiff incorporates by reference and realleges each and every allegation contained above as though fully set forth herein.

109. As a result of the acts alleged herein, the stock option contracts between the Officer Defendants and Sonic entered into during the relevant period were obtained through Defendants' fraud, deceit, and abuse of control. Further, the backdated stock options were illegal grants and thus invalid as they were not authorized in accordance with the terms of the publicly filed contracts regarding the Officer Defendants' employment agreements and the Company's stock option plan which was also approved by Sonic shareholders and filed with the SEC.

110. All contracts which provide for stock option grants between the Officer Defendants and Sonic and were entered into during the relevant period should, therefore, be rescinded, with all sums paid under such contracts returned to the Company, and all such executory contracts cancelled and declared void.

## PRAYER FOR RELIEF

WHEREFORE, plaintiff demands judgment as follows:

A. Awarding money damages against all Defendants, jointly and severally, for all losses and damages suffered as a result of the acts and transactions complained of herein, together with pre-judgment interest, to ensure Defendants do not participate therein or benefit thereby;

B. Directing all Defendants to account for all damages caused by them and all profits and special benefits and unjust enrichment they have obtained as a result of their unlawful conduct, including all salaries, bonuses, fees, stock awards, options and common stock sale proceeds and imposing a constructive trust thereon;



1 C. Directing Sonic to take all necessary actions to reform and improve its corporate  
2 governance and internal control procedures to comply with applicable law, including, but not limited  
3 to, putting forward for a shareholder vote resolutions for amendments to the Company's By-Laws or  
4 Articles of Incorporation and taking such other action as may be necessary to place before  
5 shareholders for a vote adoption of the following Corporate Governance policies:

6 (i) a proposal requiring that the office of CEO of Sonic and Chairman of the  
7 Sonic Board of Directors be permanently held by separate individuals and that the Chairman of the  
8 Sonic Board meets rigorous "independent" standards;

9 (ii) a proposal to strengthen the Sonic Board's supervision of operations and  
10 develop and implement procedures for greater shareholder input into the policies and guidelines of  
11 the Board;

12 (iii) appropriately test and then strengthen the internal audit and control functions;

13 (iv) rotate independent auditing firms every five years;

14 (v) control and limit insider stock selling and the terms and timing of stock option  
15 grants; and

16 (vi) reform executive compensation.

17 D. Ordering the imposition of a constructive trust over Defendants' stock options and  
18 any proceeds derived therefrom;

19 E. Awarding punitive damages;

20 F. As to all improperly dated and/or improperly priced options that have been exercised,  
21 ordering Defendants to make a payment to the Company in an amount equal to the difference  
22 between the prices at which the options were exercised and the exercise prices the options should  
23 have carried if they were priced at fair market value on the actual date of grant;

24 G. As to all improperly dated and/or improperly priced options that have been granted  
25 but not yet exercised or expired, ordering the Company to rescind such options so they carry the  
26 exercise prices they should have carried if they were priced at fair market value on the actual date of  
27 grant;

1 H. Awarding costs and disbursements of this action, including reasonable attorneys',  
2 accountants', and experts' fees; and

3 I. Granting such other and further relief as this Court may deem just and proper.

4 **JURY DEMAND**

5 Plaintiff demands a trial by jury.

6 DATED: June 26, 2007

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JOHN K. GRANT  
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27 Attorneys for Plaintiff

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**CERTIFICATION OF INTERESTED ENTITIES OR PERSONS**

Pursuant to Civil L.R. 3-16, the undersigned certifies that as of this date, other than the named parties, there is no such interest to report.

  
\_\_\_\_\_  
ATTORNEY OF RECORD FOR PLAINTIFF  
SAMMY K. DOOLITTLE

**SONIC SOLUTIONS CORP. VERIFICATION**

I, Sammy K. Doolittle , hereby verify that I am familiar with the allegations in the Complaint, and that I have authorized the filing of the Complaint, and that the foregoing is true and correct to the best of my knowledge, information and belief.

DATE:

03-06-07

Sammy K. Doolittle  
SIGNATURE